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STATE FOR VCI, EUR/PRA, AND EUR/RUS

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TAGS: [PARM](#) [MTCRE](#) [PREL](#) [MNUC](#) [ETTC](#) [RS](#)
SUBJECT: STRONG CRITICISM FOR U.S. SANCTIONS AGAINST
ROSOBORONEXPORT

REF: STATE 110756

Classified By: Ambassador John R. Beyrle for reasons 1.4 (b) and (d).

¶1. (C) Summary. Russian officials have denounced the U.S. decision to renew sanctions against Rosoboronexport (ROE) and its subsidiaries under the terms of the Iran, North Korea and Syria Nonproliferation Act (reftel). Arguing that ROE's activity with Iran was fully compliant with international law, President Dmitriy Medvedev and Foreign Minister Sergey Lavrov asserted that unilateral U.S. sanctions would have no effect on Rosoboronexport's activity. They warned that the sanctions would negatively affect bilateral relations with the U.S., as well as cooperation on Iran within the P5 1. ROE accused the U.S. of "unfair competition" by trying to limit Russia's ability to conduct foreign trade. Several experts criticized the sanctions as yet another complication in U.S.-Russian relations, and cautioned that the U.S. decision could provoke Russia to sell more dangerous weapons technology to Iran and Syria. In the economic sector, some news reports maintained that the sanctions would hurt Boeing's ability to purchase titanium through Rosoboronexport subsidiary VSMPO-Avisma. However, as in the past, it is our understanding that the sanctions order will not have any impact on Boeing's titanium purchases or GM's joint venture with Avtovaz, since the sanction order only applies to purchases by or for the USG, not those of private U.S. companies. End summary.

Officials Strongly Condemn Unilateral Sanctions

¶2. (SBU) On October 28, President Medvedev accused the U.S. of "unprincipled competition" by imposing sanctions on ROE, a decision he called "shortsighted" and "simply an attempt to close doors on suppliers." He noted that Russia would continue to sell arms and military equipment to maintain the defense potential of its partners, regardless of the sanctions. In its official statement, ROE echoed the President's remarks, claiming the U.S. wanted to suppress competition. The statement attributed the U.S. decision to a desire in Washington to weaken Russia's standing as a global arms export leader. ROE also dismissed U.S. arguments that the TOR-M1 missiles Russia supplied to Iran posed a threat to U.S. forces in the region. The statement alleged that the TOR-M1 improved Iran's defensive air capabilities, which would enable Tehran to protect its nuclear, chemical, and energy facilities from high-precision attacks, which could be carried out using weapons produced in the U.S.

¶3. (SBU) Both ROE and Foreign Minister Lavrov asserted that the sanctions had no basis in international law, and Lavrov

warned that the U.S. decision would negatively affect relations with Russia. In an October 24 press conference, Lavrov noted sarcastically that imposing sanctions would not make Russia more willing to adopt U.S. positions regarding Iran's nuclear program. An official MFA statement stressed that the sanctions would complicate U.S.-Russian cooperation in the P5 1. Russia also accused the U.S. of hypocrisy, arguing that the U.S. ignored arms transfers by its allies to rogue regimes, an implicit reference to Ukrainian arms supplies to the Georgian military. Even Russia's NATO Ambassador Dmitriy Rogozin insisted the U.S. had no evidence of Russia delivering banned military technologies to Iran, and accused the U.S. itself of supplying the Iranian Air Force with forbidden equipment.

14. (SBU) At the October 30 Shanghai Cooperation Organization (SCO) Heads of State Summit, the Director of the Bank for Development and Foreign Economic Affairs (Vneshekonombank) Vladimir Dmitriyev told reporters that the U.S. sanctions on ROE could factor into the SCO's decision to start trading in national currencies or third-country currencies, as opposed to dollars. According to Dmitriyev, Russia's close military-technological cooperation with countries like China and India, an SCO member state and observer respectively, could compel the SCO to consider this idea. However, no SCO member state has yet to issue any concrete proposals.

Experts Also Critical

15. (C) Several experts were critical of the sanctions, and questioned their timing at a period when bilateral relations

were under great strain. Aleksey Arbatov of the Carnegie Moscow Center and Georgiy Mirskiy of the Institute of Higher Economics told us that, with several challenges already complicating U.S.-Russian relations, senior Russian officials would regard the sanctions as disrespectful and aggressive. They cautioned that the sanctions could embolden hardliners within Medvedev and Putin's inner circles, who champion more active arms sales of weapons like the S-300 missile to Iran and Syria, and could undermine senior advisers who favor a more conciliatory approach towards relations with the U.S. The editors of the Independent Military Review, looking ahead past the upcoming Presidential elections, predicted the sanctions, in addition to missile defense, the CFE Treaty, and post-START negotiations, would impede the normalization of relations between the Kremlin and the next U.S. Administration. They also dismissed any notion that the sanctions would hurt Rosoboronexport, which has 30 billion dollars of contracts and no major deals with the U.S. government.

No Impact on U.S. Businesses

16. (SBU) It is our understanding that the current sanctions order will not have any impact on U.S. businesses here, despite some claims in the Russian press that the renewed sanctions on ROE would affect Boeing's purchases of titanium from VSMPO-Avisma, which is part of the same corporate family as ROE. (Avisma is one of the world's leading suppliers of titanium to the global aerospace industry, and its customers include Airbus, Bombardier and Boeing, which uses the super-light metal in the 787 Dreamliner, the 777, and in other aircraft.) The terms of the sanctions order only limit USG purchases from sanctioned companies and their subsidiaries, not purchases by private U.S. companies for non-USG contracts. (N.B. For any U.S. government contracts, we understand that Boeing acquires titanium from a U.S. source, rather than from Avisma). Boeing told The Moscow Times that it would not be affected by the current sanctions order, and in past sanctions cases against ROE, Boeing has stated that the order would not affect their Avisma supply contracts. Likewise, given the sanctions order's limitations to USG purchases, GM's joint venture in Togliatti with

Avtovaz (also part of the Rostekhnlogiya-Rosoboronexport corporate family), which began in 2001 and produces the Chevrolet Niva, should not be affected. A GM Moscow senior adviser on government relations for Russia and the CIS confirmed to us that the various sanctions against ROE had not had any impact on GM's dealings with Avtovaz, and, as the sanctions are currently structured, they do not anticipate any impact in the future.

BEYRLE